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Competition: Consumers' Phone Bills May Compete With Card Usage Over the Internet.

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Competition for online shoppers is heating up after ReleaseNow.com, a company that facilitates business-to-business software sales, signed a strategic business agreement with eCharge Corp., an online payments company.

Under the agreement, shoppers purchasing software from vendors in San Carlos, Calif. -based Release Now.com's network will be able to charge the digital goods and services to their local phone bills rather than a credit card by the end of September. Consumers can purchase digital goods and services up to \$150 per transaction through Seattle-based eCharge.

Now that the alternative payment floodgates are open, credit card issuers can expect more competition from other companies that consistently bill consumers, he adds. "It's going to stir up the market," says Bob Gilson, managing director of the Hockessin, Del.-based Convergence Group. "A lot of innovation will happen because of it."

One in three Internet users make online purchases, according to a study by New York-based CDB Research & Consulting Inc. This is up from the 20% range a year ago. Among online shoppers, 52% spent less than \$100 in the past month. The average e-commerce transaction in the U.S. is \$74, says Ron Erickson, eCharge's chief executive officer. Retailers using eCharge's service can expect to see a 5% to 10% increase in business in about four months, Erickson predicts.

To help eCharge capture part of the online credit card market, the company appointed Visa International's Mark Tremont as chief financial officer earlier this month. Tremont was executive vice president of finance at Visa. Another addition was Linda Weber as vice president of the credit and prepay product business. Weber was senior vice president at CoreStates Financial Corp., part of First Union Corp., where she developed the Internet and e-commerce group.

However, ReleaseNow.com picked eCharge to help its merchants turn shoppers skeptical of credit card online security into buyers and to serve the people who don't have credit cards, says Charles S. Merrin, vice president of business development with ReleaseNow.com.

Those shoppers were lost to the merchants with ReleaseNow.com storefronts. "There are definitely people out there who will come to the site, do research at the site, but then call customer service or go to a store to make their purchase," Merrin says.

The eClient software that allows consumers to purchase using this system disconnects the Internet connection and links purchasers to a separate billing number that then connects to eCharge. An encryption key is passed through eClient to allow a consumer to unlock the encrypted data and also bills the consumer's phone account. Only a shopper's phone number is required for billing.

But charging purchases to a phone bill instead of a credit card won't necessarily bring greater security than what cards already offer, Convergence's Gilson says. A smart card combined with a biometric device

would be a way to provide a higher level of security, he says. "On the Internet, e-commerce transaction security is really on smart cards," he says.

Merrin expects to see consumers charging computer software to their telephone bills once retailers start advertising the option.

He isn't concerned about buyers not paying their bills. "My gut feeling is that there probably will be a lower rate of chargebacks (than with credit cards)," Merrin says, because the purchase is added to a person's phone bill. AT&T, BCTelus in Canada, Sweden's Telia and Britain's Cable & Wireless have agreements with eCharge.

eCharge's Erickson confirms that hunch. "People pay their phone bills," he says. "The slow pay/no pay rate is 1.5% of purchases." Erickson is quick to add that the phone companies can take care of themselves. "They're very quick to cut people off if there is a hint of abuse," he says.

The benefit to phone companies and eCharge in this deal is the interchange rate paid by retailers. eCharge doesn't bill retailers or phone companies to add this service, Erickson says. The interchange rate is competitive with the rate charged by Visa and MasterCard, although it is at the high end, Erickson says.

None of the participating phone companies are offering consumers a revolving credit line for using this service at present, although they could, Erickson adds. Phone companies considering entering the banking world should think twice, Convergence's Gilson says.

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